



MANAGEMENT OF STRATEGIC COOPETITION AMONG PARTNERS WITHIN INTERNATIONAL AIRLINE ALLIANCES

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ABSTRACT. Background: International network-carriers span the globe by linking airports on all five continents. At the core of those networks are hub-airports that serve as the centers for (inter-)national in- and outbound traffic flows. From a business model point of view, the major international carriers are so-called network-carriers, for their core concept is based on transfer-oriented hub-and-spoke-systems. In order to maximize revenue streams of network-carriers, changes in strategic slot allocation and strategic net planning are becoming increasingly relevant.

The aim of this work was to analyze the impact of various elements of the management of strategic cooperation among partners within international airline alliances on the revenues obtained by individual partners.

Methods: the problems related to the optimization of strategic slot allocation and strategic net planning from the point of view of the individual profit shared and added net contribution margins were discussed.

Results and conclusions: Two extreme scenarios may be projected. The first one is that partners within a given alliance system may start to increase merger and acquisition activities. Thereby scale effects may be utilized. The other one is, when rivalry becomes too dominant over time, some partners may (have to) exit alliance systems. Thereby "atomic" subsystems may be on the rebound. Strategic cooperation management is aimed to keep leading international network carriers "on track" in the field of alliance management of that nature.

Key words: network-carriers, airport, slot allocation, cooperation, airline alliances.

INTRODUCTION

International network-carriers mainly link three major intercontinental markets: North America, Europe, and Asia. European carriers are particularly interested in transporting passengers to and from North America and Asia, while European airports serve as their hubs. Large-scale business-oriented customers are the prime business segment that those carriers typically target. For those passenger segments, it is particularly important to be offered time-windows for departure and arrival that suit their overall and overriding business needs. In order to offer their business passengers that kind of timing, European network-carriers need relevant slots in markets they serve. A slot itself is being interpreted as a right to use a certain infrastructure (e.g. runway) at a certain airport at a certain time and/or during a defined time frame.

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MARKET-ORIENTED OPERATIONS

A "market" is defined as a combination of time and place. In other words, a relation from Frankfurt to New York-John F. Kennedy at 7 o'clock in the morning is perceived a completely different market as a relation from Frankfurt to New York-John F. Kennedy at 4 o'clock in the afternoon. While in both cases the destination remains the same, arrival time makes all the difference for business travellers. This market definition implies that the passenger demography for the early morning arrival in New York may be completely different from the passenger demography for the afternoon arrival in New York.

Demand for those service offerings is typically correlated with the overall economic well-being in a certain region. For example, the indicator "Revenue Passenger Miles" (as an indicator for demand) is correlated to the overall "Gross Domestic Product" (as an indicator for wealth) of a region. While those two-dimensional explanatory models are only functional, and not causal in nature, they still do inherit a specific usability and plausibility to explain current and to predict future demand patterns for (potential) markets.

SLOT ALLOCATION

By establishing a "portfolio" of slots in international relevant "markets", network-carriers aim to sustain their own corporate growth. In other words, by linking international economic growth centers, network-carriers are trying to become less dependent on their respective home markets, and to establish a link from their own business to global growth engines. In doing so, European carriers are aiming to become more and more independent from the development and allocation of wealth in their own European markets. In this "investment" logic, only those slots and markets are preferred that brings about a major traffic volume. Critical in all of this, however, is not the overall volume in terms of quantity. Moreover, volume refers to the financial image of that volume, as may be expressed in terms of marginal contributions per market, for example.

Each carrier possesses a unique set of slots. This set enables the carrier to realize net contribution margins throughout the entire destination portfolio. Strategic slot management aims to maximize the returns and contribution margins from establishing such portfolios. Over the past 20 years, however, net contribution margins for European network carriers have decreased for about 20 % in intercontinental markets due to a fall in relevant yields. As cost savings are relatively hard to accomplish, for that network carriers carry a heavy proportion of fixed costs, yield decline may often only be balanced by an increase in overall turnover. In order to achieve substantial added earnings, slots at selected destinations need to be modified as they induce different economic effects for the carrier. For example, contribution margins are correlated to time-based slot allocation (see picture 1).

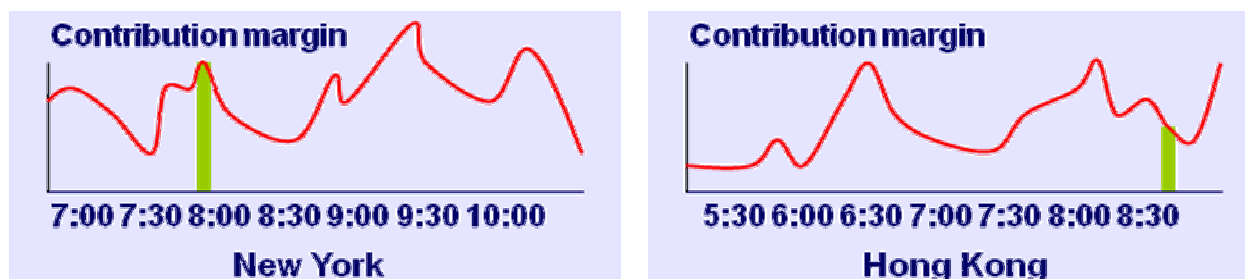


Fig. 1. Contribution margins depend on time-based slot allocation
Rys. 1. Marże zależne od alokacji w czasie

Optimization of revenue streams based on adequate slot allocation is hard to accomplish on an individual basis, however. It shows that carriers do need partners in order to optimize their respective time-stamps in their slot portfolios among their markets. In other words, maximization of the added revenue that can potentially be drawn from a slot or market portfolio is subject for interorganizational cooperation. Dissolution of wing-to-wing-operations is just one example of how to maximize profit contributions. All in all, this aspect may serve as one key cause for the emergence of airline alliances.

COOPETITION

It becomes evident that partnering in an airline alliance is aimed at increasing individual profit shares and added net contribution margins. Therefore, partnering in an airline alliance does serve as a means to an end. This is largely an instrumental way of looking at alliances. It is intuitive that cooperation and partnering go along. However, it may well be contrainuitive that competition among partners is arising along the same train of thought: Not all the partners in airline alliances are alike. As a matter of fact, they group into several segments within an alliance system. As a result, some partners do profit more from their cooperation in an alliance system than do others (see picture 2).

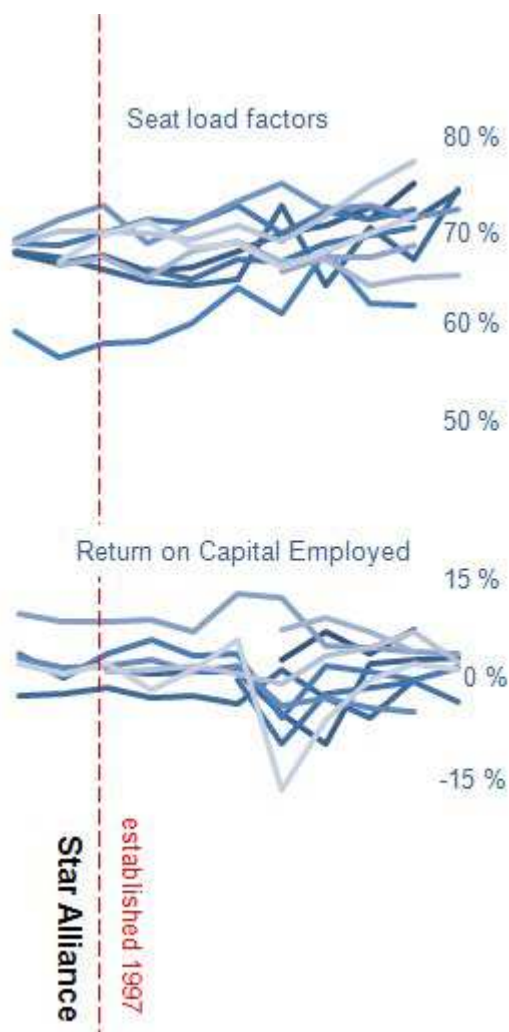


Fig. 2. Economic rivalries among partners within airline alliances are based on uneven allocation on aggregated contribution margins

Rys. 2. Ekonomiczna konkurencja pomiędzy partnerami w obrębie sojuszy linii lotniczych spowodowana nierówną alokacją zagregowanych marży

To increase the volume of aggregated contribution margins, carriers aim to dissolve wing-to-wing-operations, aim to intensify bilateral cooperation among partners by means of increased code shares, and aim to deepen bi- or trilateral partnerships among members of alliance systems by establishing cost-, risk-, and/or revenue sharing models. All of this is basically meant to improve the individual position of any carrier engaging in such activities. In other words, the individual goal system remains to be dominant.

For that some partners gain more from partnering in an alliance than others, rivalry emerges. This rivalry focuses on competition for (business) travellers and for a more evenly balanced cost-, risk-, and/or revenue sharing mechanism. Cooperation and competition emerge almost simultaneously, which is depicted in the term "coopetition". Both patterns do not represent alternatives. Moreover, one does not go without the other - as two sides of a coin. While the economic motivation for coopetition is based on allocation mechanisms, legal constraints remain unweighed in this article. However, with respect to legal aspects, competition might be even fierce.

Leading international network-carriers try to measure the level of coopetition. For example, a "coopetition index" might help to determine each partner's position in a portfolio of appreciated cooperation and accepted competition. The coopetition index itself may consist of a cooperation index on the one hand and of a competition index on the other. Several indicators may be employed to measure cooperation, while several other indicators (or even the same) may be utilized to measure competitive artefacts.

Each partner is monitoring their partners and is tracking cooperation and competition indices for each of them. For cooperation indicators, there are minimum requirements and standards of partnership that have to be met. For competition indicators, there are maximum allowances that must not be topped. If measured regularly, partners will receive an idea about what kind of level of coopetition to expect from their partners over time (see picture 3). In its simplest way, this mode is being measured in a two-dimensional scaling system. However, multi-dimensional scaling models to measure coopetition are feasible and applicable.

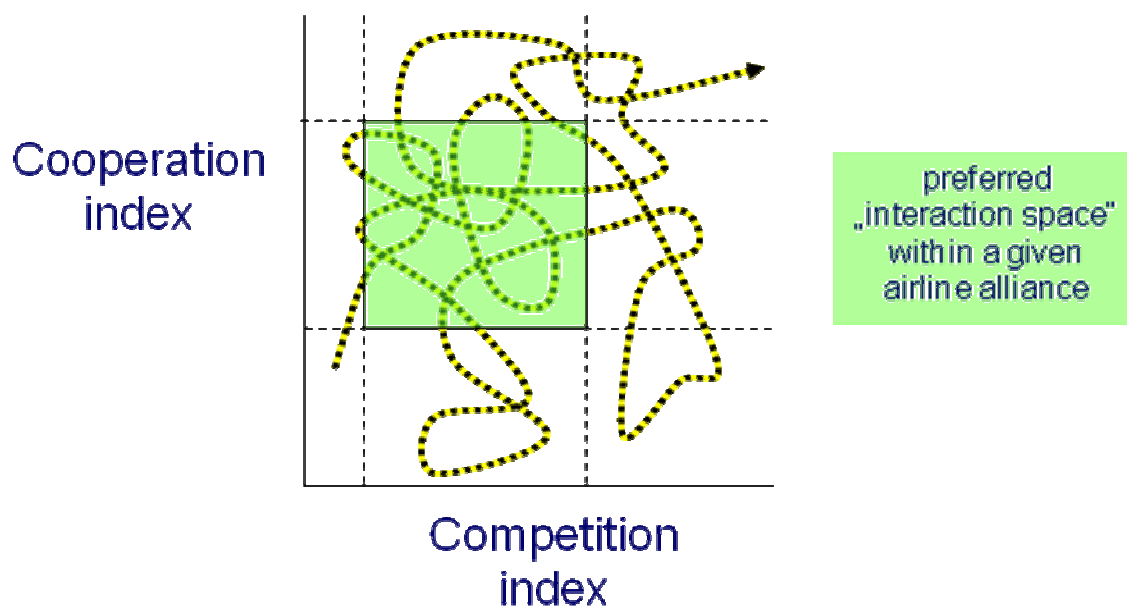


Fig. 3. Management of strategic cooperation within a frame of cooperation and competition by setting minimum requirements for cooperation and maximum allowances for competition within airlines alliances

Rys. 3. Zarządzanie strategią konkuperacji w ramach kooperacji oraz konkuperacji poprzez wyznaczenie minimalnych wymagań dla kooperacji oraz maksymalnych możliwości konkurencji w obrębie sojuszy linii lotniczych

SUMMARY AND OUTLOOK

Network-carriers aim to serve markets across all five continents. In order to maximize their revenue streams, changes in strategic slot allocation and strategic net planning are becoming increasingly relevant. For that, this kind of optimization is hard to execute on an individual basis, however, carriers need to team up. Within alliance systems, cooperation is a pure instrumental play. It does not surprise that some profit more from it than others.

Rivalry still exists, for that, there are no specifically dedicated fleets per cooperation. In other words, for that carriers do not allocate specific portions of the aircraft fleets to any given cooperation, sharing models of almost any kind fall short of completely eliminating uneven allocation of additional revenue derived from common optimization.

Two extreme scenarios may be projected: On the one hand, partners within a given alliance system may start to increase merger and acquisition activities. Thereby scale effects may be utilized. On the other hand, if rivalry becomes too dominant over time, some partners may (have to) exit alliance systems. Thereby "atomic" subsystems may be on the rebound. Strategic cooperation management is aimed to keep leading international network carriers "on track" in the field of alliance management of that nature.

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ZARZĄDZANIE STRATEGICZNĄ KONKUPERACJĄ POMIĘDZY PARTNERAMI MIĘDZYNARODOWYCH SOJUSZY LOTNICZYCH

STRESZCZENIE. Wstęp: Międzynarodowa sieć połączeń lotniczych obejmuje swym zasięgiem cały świat, łącząc lotniska znajdujące się na wszystkich pięciu kontynentach. Bazą tych sieci są wielkie porty lotnicze, służące jako centra (między-) narodowych przepływów. Z punktu widzenia modelu biznesowego, większość międzynarodowych przewoźników jest tak zwanymi przewoźnikami sojuszy linii lotniczych, zaś koncepcja ich działalności opiera się na systemach typu hub-and-spoke. W celu maksymalizacji przychodów przewoźników należących do sieci, konieczność zmian w strategicznej alokacji slotów oraz strategicznego planowania sieciowego wydaje się nieodzowna.

Celem pracy była analiza wpływu różnych elementów zarządzania strategicznego konkuperacji między partnerami w międzynarodowych sojuszy linii lotniczych na przychody uzyskiwane przez poszczególnych partnerów.

Metody: problemy związane z optymalizacją strategicznej alokacji slotów jak również strategicznego planowania sieciowego z punktu widzenia zysków uzyskiwanych poprzez poszczególnych partnerów zostały poddane dyskusji.

Wyniki i wnioski: Dwa skrajne scenariusze mogą zostać przyjęte. Pierwszy z nich zakłada, że partnerzy w ramach danego systemu sojuszu wzmogą działania na rzecz fuzji i przejęć. W ten sposób efekt skali działania może zostać wykorzystany. Drugi scenariusz dotyczy sytuacji, kiedy rywalizacja staje się zbyt dominująca i niektórzy partnerzy mogą (muszą) zrezygnować z uczestnictwa w sojuszu. Tym samym mogą zacząć przewozić tzw. systemy "atomowe".

Celem strategicznego zarządzania konkuperacją jest utrzymanie wiodących międzynarodowych przewoźników w sojuszach linii lotniczych, do których należą.

Słowa kluczowe: przewoźnicy lotniczy, port lotniczy, slot, alokacja czasu, konkuperacja, sojusz linii lotniczych.

MANAGEMENT VON STRATEGISCHER KOOPKURRENZ IN INTERNATIONALEN LUFTVERKEHRSALLIANZEN

ZUSAMMENFASSUNG. Einleitung: Im internationalen Passangerlinien-Luftverkehr verbinden global agierende Netzwerk-Carriers international dezentralisierte Hauptverkehrsregionen aller fünf Kontinente über zentralisierte Hub-and-Spoke-Systeme. Jeder Netzwerk-Carrier versucht entsprechend als Leistungsanbieter, kritische Slots in jedem dieser Märkte einzunehmen. Die dabei zugrundeliegende Marktdefinition weicht von typischen Marktbegriffsfassungen ab: im internationalen Passangerlinien-Luftverkehr versteht sich ein Markt als ein Zielort (d.h. Destination) zu einer gegebenen, bestimmten Zeitenlage (d.h. Slot). In dieser Sicht ist es nicht immer problemlos, sofern ein Netzwerk-Carrier einen spezifischen Slot für eine in seinem strategischen Fokus stehende Destination aufbauen möchte. Aus diesem Grund kooperieren Netzwerk-Carrier in internationalen Luftverkehrsallianzen, um diese strategischen Ressourcen einander verbessert zugänglich zu machen.

Das Ziel der Arbeit war es, den Einfluss der unterschiedlichen Elemente des strategischen Managements im Rahmen einer Koopkurrenz zwischen den Partnern der internationalen Luftverkehrsallianzen auf die von den einzelnen Teilnehmern notierten Einnahmen einer Analyse zu unterziehen.

Methoden: Es wurden die Probleme mit der Optimierung des strategischen Slot-Managements sowie der strategischen Netzwerk-Planung unter dem Gesichtspunkt der von den einzelnen Partnern erzielten Gewinne projiziert und durchdiskutiert.

Ergebnisse und Fazit: Es können zwei Randszenarien betrachtet werden. Das erste nimmt an, dass die im Rahmen eines Verbunds wirkenden Partner ihre Aktivitäten auf die Fusionen und Übernahmen ausrichten. Auf diese Art und Weise kann der Effekt der Wirkungsskala erzielt und ausgenutzt werden. Das andere Szenario bezieht sich auf die Situation, in welcher der Wettbewerb allzu sehr dominierend wird und deswegen manche Partner auf die Teilnahme an der Allianz verzichten können (müssen). Somit können die sog. "Atom"-Subsysteme an Übergewicht gewinnen.

Als Ziel des strategischen Managements der Koopkurrenz erscheint also die Aufrechterhaltung der führenden, kooperierenden Netzwerk-Carriers in internationalen Luftverkehrsallianzen, denen sie angehören.

Codewörter: Netzwerk-Carrier, Flughafen, Slot, Allokation der Zeitenlagen, Koopkurrenz, Luftverkehrsallianz.

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